



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
KENTON COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

April 4, 2000

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EXECUTIVE SUMMARY

KENTON COUNTY CHARLES L. KORZENBORN, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES APRIL 4, 2000

The Auditor of Public Accounts has completed the audit of the Kenton County Sheriff's Settlement - 1999 Taxes as of April 4, 2000. The audit report is based on audit fieldwork completed on November 22, 2000. This executive summary emphasizes the most important parts of our audit.

Reports Issued

Independent Auditor's Report

In our opinion, the accompanying financial statement presents fairly, in all material respects, the Kenton County Sheriff's taxes charged, credited, and paid as of April 4, 2000.

Comments And Recommendations

- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Deposit Receipts Daily
- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

Report On Compliance And On Internal Control

Three instances of noncompliance were reported. One reportable condition involving internal controls was reported. The auditor considers this reportable condition to be a material weakness.

Notes To Financial Statements

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. For the 1999 taxes, the Sheriff had \$28,848 in unrefundable duplicate payments and unexplained receipts.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Honorable Charles L. Korzenborn, Kenton County Sheriff
Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the Kenton County Sheriff's Settlement - 1999 Taxes as of April 4, 2000. This tax settlement is the responsibility of the Kenton County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Kenton County Sheriff's taxes charged, credited, and paid as of April 4, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance.

- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Deposit Receipts Daily
- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

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Members of the Kenton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated November 22, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 22, 2000

KENTON COUNTY
CHARLES L. KORZENBORN, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

April 4, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 7,251,093	\$ 7,064,079	\$ 31,432,704	\$ 8,319,084
Tangible Personal Property	1,007,167	1,002,526	3,513,700	1,808,461
Intangible Personal Property				1,127,316
Current Year Franchise Corporation	213,294	186,794	833,850	
Prior Years Franchise Corporation	366,014	336,682	1,333,452	
Increased Through Erroneous Assessments	11,045	13,274	42,895	19,215
Penalties	25,261	25,058	115,629	31,399
Adjusted to Sheriff's Receipt	(12)	85	34	13
 Gross Chargeable to Sheriff	 \$ 8,873,862	 \$ 8,628,498	 \$ 37,272,264	 \$ 11,305,488
 <u>Credits</u>				
Discounts	\$ 135,702	\$ 132,680	\$ 573,222	\$ 186,526
Exonerations	57,004	70,886	203,217	44,904
Delinquents:				
Real Estate	66,124	67,829	338,912	75,864
Tangible Personal Property	10,358	8,602	43,324	25,706
Intangible Personal Property				5,053
Uncollected Prior Years Franchise	324,558	285,758	1,177,368	
 Total Credits	 \$ 593,746	 \$ 565,755	 \$ 2,336,043	 \$ 338,053
 Net Tax Yield	 \$ 8,280,116	 \$ 8,062,743	 \$ 34,936,221	 \$ 10,967,435
Less: Commissions (a)	352,192	301,543	698,724	466,404
 Net Taxes Due	 \$ 7,927,924	 \$ 7,761,200	 \$ 34,237,497	 \$ 10,501,031
Taxes Paid	7,906,612	7,743,691	34,162,808	10,335,614
Credit For Commissions Per KRS 134.290				1,265
State Withheld Portion Of Delinquent Tax Sale				23,030
Refunds(Current and Prior Year)	24,109	20,279	83,893	142,343
 Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	 \$ (2,797)	 (b)	 (c)	 \$ (1,221)

(a), (b), and (c) See Page 4

KENTON COUNTY
 CHARLES L. KORZENBORN, SHERIFF
 SHERIFF'S SETTLEMENT - 1999 TAXES
 April 4, 2000
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	26,034,963
2% on	\$	34,936,221
1% on	\$	1,265,331

(b) Special Taxing Districts:

Library District	\$	(1,199)
Health District		(357)
Extension District		(185)
NKAPC District		(418)
Boone-Walton Fire District		(24)
Independence Fire District		(335)
Piner-Fiskburg Fire District		(97)
Ryland Heights Fire District		(5)
Elsmere Fire District		<u>(150)</u>

(Refunds Due Sheriff)	\$	<u><u>(2,770)</u></u>
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(c) School Districts:

Common School District	\$	(10,849)
Covington School District		2,723
Ludlow School District		(784)
Erlanger School District		424
Beechwood School District		<u>(718)</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(9,204)</u></u>
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The accompanying notes are an integral part of the financial statement.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 4, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 4, 2000, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

KENTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 4, 2000
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 1999 through April 4, 2000.

Note 4. Interest Income

The Kenton County Sheriff earned \$54,474 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$28,848 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

KENTON COUNTY
CHARLES L. KORZENBORN, SHERIFF
COMMENTS AND RECOMMENDATIONS

April 4, 2000

STATE LAWS AND REGULATIONS:

1) Fidelity Bonds Should Adequately Protect County From Potential Loss

As of the audit date, the amount of the Sheriff's county revenue bond was \$1,000,000. In our opinion, this amount is insufficient to adequately protect the county from potential loss. We recommend the fiscal court review the Sheriff's county revenue bond and take the appropriate action necessary to ensure that the county is adequately protected.

Sheriff's Response:

Handled by Fiscal Court.

2) The Sheriff Should Prepare Monthly Bank Reconciliations

The Department for Local Government, under the authority of KRS 68.210, established minimum accounting procedures, which include preparing monthly bank reconciliations. During our audit, we did not find that monthly bank reconciliations were being prepared for the tax account. We recommend that the Sheriff prepare timely bank reconciliations for his tax account.

Sheriff's Response:

We concur.

3) The Sheriff Should Deposit Receipts Daily

Pursuant to KRS 64.850, receipts should be deposited on a daily basis. During our audit, we tested transactions and noted the following:

- Tax receipts collected in the Sheriff's office were not deposited daily.
- Tax receipts collected through the lockbox system were not deposited daily.

We recommend that tax receipts be deposited daily.

Sheriff's Response:

Working on this problem with Fifth Third Bank.

KENTON COUNTY
CHARLES L. KORZENBORN, SHERIFF
COMMENTS AND RECOMMENDATIONS
April 4, 2000
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements.

In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accepts the risk for a lack of adequate segregation of duties.

Sheriff's Response:

So noted. Working on more personnel.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Honorable Charles L. Korzenborn, Kenton County Sheriff
Members of the Kenton County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Kenton County Sheriff's Settlement - 1999 Taxes as of April 4, 2000, and have issued our report thereon dated November 22, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Sheriff's Settlement - 1999 Taxes as of April 4, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Should Deposit Receipts Daily

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Kenton County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
Honorable Charles L. Korzenborn, Kenton County Sheriff
Members of the Kenton County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 22, 2000

